

CITY OF READING, MICHIGAN

Financial Statements

**For The Fiscal Year Ended
June 30, 2008**



REHMANN ROBSON

Certified Public Accountants

CITY OF READING, MICHIGAN
For the Fiscal Year Ended June 30, 2008

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report.....	1-2
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	3
Statement of Activities.....	4-5
Fund Financial Statements:	
Balance Sheet – Governmental Funds	6
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	7
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	8
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	9
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual:	
General Fund.....	10
Major Streets	11
Statement of Net Assets – Proprietary Funds	12
Reconciliation of Net Assets on the Statement of Net Assets for Enterprise Funds to Net Assets of Business-type Activities on the Statement of Net Assets	13
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	14
Reconciliation of Statement of Revenues, Expenses and Changes in Fund Net Assets of Proprietary Funds to the Statement of Activities.....	15
Statement of Cash Flows – Proprietary Funds.....	16-17
Statement of Fiduciary Net Assets- All Fiduciary Funds	18
Notes to the Financial Statements	19-37

CITY OF READING, MICHIGAN
For the Fiscal Year Ended June 30, 2008

TABLE OF CONTENTS (Concluded)

	<u>PAGE</u>
Supplementary Information:	
Detailed Schedule of Expenditures – Budget and Actual – General Fund.....	38
Combining Balance Sheet – Nonmajor Governmental Funds	39
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	40
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Local Street Special Revenue Fund	41
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Rental Rehabilitation Special Revenue Fund.....	42
Statement of Net Assets/Governmental Fund Balance Sheet Tax Increment Finance Authority Component Unit	43
Statement of Activities and Government Fund Revenues, Expenditures, and Changes in Fund Balance -Tax Increment Finance Authority Component Unit.....	44



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



Independent Auditors' Report

December 26, 2008

The Honorable Mayor and
Members of the City Council
City of Reading
Reading, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the **City of Reading, Michigan**, as of and for the year ended June 30, 2008, which collectively comprise the basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the remaining aggregate fund information of the City of Reading, Michigan, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparisons for the general fund and major streets special revenue fund, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report in a separate report dated December 26, 2008, on our consideration of the City of Readings' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The City has not presented Management's Discussion and Analysis (MD&A) as required supplementary information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be, part of the financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

City of Reading
Statement of Net Assets
June 30, 2008

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 648,657	\$ 889,688	\$ 1,538,345	\$ 77,421
Receivables	62,484	669,287	731,771	-
Internal balances	(101,387)	101,387	-	-
Prepaid items and other assets	-	12,911	12,911	-
Investment in joint venture	80,227	-	80,227	-
Assets held for resale	-	-	-	920,993
Capital assets not being depreciated	55,674	3,543,376	3,599,050	-
Capital assets being depreciated, net	579,097	2,109,320	2,688,417	8,868
Total assets	1,324,752	7,325,969	8,650,721	1,007,282
Liabilities				
Accounts payable and accrued liabilities	14,333	638,646	652,979	9,013
Long-term debt:				
Due within one year	10,000	60,000	70,000	20,976
Due in more than one year	60,510	3,963,943	4,024,453	519,421
Total liabilities	84,843	4,662,589	4,747,432	549,410
Net assets				
Invested in capital assets, net of related debt	569,771	1,635,696	2,205,467	389,464
Restricted for bond payment	-	112,375	112,375	-
Unrestricted	670,138	915,309	1,585,447	68,408
Total net assets	\$ 1,239,909	\$ 2,663,380	\$ 3,903,289	\$ 457,872

The accompanying notes are an integral part of these financial statements.

City of Reading
Statement of Activities
For the Year Ended June 30, 2008

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>
		<u>Charges</u>	<u>Operating</u>	
		<u>for Services</u>	<u>Grants and</u>	<u>Revenue</u>
			<u>Contributions</u>	
			<u>Grants and</u>	
			<u>Contributions</u>	
Primary government				
Governmental activities:				
General government	\$ 172,020	\$ 28,456	\$ 128,925	\$ (14,639)
Public safety	88,863	3,903	-	(84,960)
Public works	58,280	-	-	(58,280)
Highways and streets	108,567	-	77,246	(31,321)
Community development	50,148	-	57,814	7,666
Recreation and culture	-	-	28,500	28,500
Interest on long-term debt	2,683	-	-	(2,683)
Total governmental activities	<u>480,561</u>	<u>32,359</u>	<u>292,485</u>	<u>(155,717)</u>
Business-type activities:				
Sewer	254,578	239,073	-	(15,505)
Water	258,442	336,387	-	577,945
Refuse	57,311	54,441	-	(2,870)
Total business-type activities	<u>570,331</u>	<u>629,901</u>	<u>-</u>	<u>559,570</u>
Total primary government	<u>\$ 1,050,892</u>	<u>\$ 662,260</u>	<u>\$ 292,485</u>	<u>\$ 403,853</u>
Component unit				
Tax Increment Finance Authority	<u>\$ 141,116</u>	<u>\$ 22,804</u>	<u>\$ -</u>	<u>\$ (118,312)</u>

continued...

City of Reading
Statement of Activities (Concluded)
For the Year Ended June 30, 2008

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Component Unit</u>
Changes in net assets				
Net (expense) revenue	\$ (155,717)	\$ 559,570	\$ 403,853	\$ (118,312)
General revenues:				
Property taxes	148,309	-	148,309	71,367
Grants and contributions not restricted to specific programs	8,134	-	8,134	-
Unrestricted investment earnings	30,268	13,182	43,450	4,254
Transfers - internal activities	22,953	(22,953)	-	-
Total general revenues and transfers	<u>209,664</u>	<u>(9,771)</u>	<u>199,893</u>	<u>75,621</u>
Change in net assets	53,947	549,799	603,746	(42,691)
Net assets, beginning of year	<u>1,185,962</u>	<u>2,113,581</u>	<u>3,299,543</u>	<u>500,563</u>
Net assets, end of year	<u><u>\$ 1,239,909</u></u>	<u><u>\$ 2,663,380</u></u>	<u><u>\$ 3,903,289</u></u>	<u><u>\$ 457,872</u></u>

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

City of Reading
Balance Sheet
Governmental Funds
June 30, 2008

	General	Major Streets	Capital Projects	Nonmajor Funds	Total Governmental Funds
<u>ASSETS</u>					
Assets					
Cash and cash equivalents	\$425,793	\$ 19,402	\$ -	\$ 4,962	\$ 450,157
Due from other governments	49,343	9,738	-	3,403	62,484
Due from other funds	1,500	-	-	-	1,500
<u>TOTAL ASSETS</u>	<u>\$476,636</u>	<u>\$ 29,140</u>	<u>\$ -</u>	<u>\$ 8,365</u>	<u>\$ 514,141</u>
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities					
Accounts payable	\$ 5,267	\$ 3,944	\$ -	\$ 28	\$ 9,239
Accrued payroll	2,095	229	-	205	2,529
Total liabilities	7,362	4,173	-	233	11,768
Fund balances:					
Unreserved:					
Undesignated	469,274	24,967	-	-	494,241
Undesignated, reported in nonmajor:					
Special revenue funds	-	-	-	8,132	8,132
Total fund balances	469,274	24,967	-	8,132	502,373
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$476,636</u>	<u>\$ 29,140</u>	<u>\$ -</u>	<u>\$ 8,365</u>	<u>\$ 514,141</u>

The accompanying notes are an integral part of these financial statements.

City of Reading
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
June 30, 2008

Fund balances - total governmental funds	\$ 502,373
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets not being depreciated	55,674
Add: capital assets being depreciated, net	342,254

Internal service funds are used by management to charge the costs of certain equipment usage to individual governmental funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.

Add: net assets of governmental internal service funds	329,769
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Certain assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: Investment in joint venture	80,227
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: long-term portion of installment debt	(55,000)
Deduct: current portion of installment debt	(10,000)
Deduct: accrued interest on installment debt	(447)
Deduct: compensated absences and other benefits	(4,941)
	<hr/>

Net assets of governmental activities	<u><u>\$ 1,239,909</u></u>
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The accompanying notes are an integral part of these financial statements.

City of Reading
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2008

	General	Major Streets	Capital Projects	Nonmajor Funds	Total Governmental Funds
Revenues					
Property taxes	\$ 148,309	\$ -	\$ -	\$ -	\$ 148,309
Intergovernmental	128,925	57,549	-	24,499	210,973
Charges for services	24,199	-	-	-	24,199
Licenses and permits	5,717	-	-	-	5,717
Fines and forfeitures	43	-	-	-	43
Investment earnings	26,382	198	-	-	26,580
Lease revenue	2,400	-	-	-	2,400
Contributions	52,814	-	-	-	52,814
Other	36,634	-	-	-	36,634
Total revenues	425,423	57,747	-	24,499	507,669
Expenditures					
Current:					
General government	152,535	-	-	-	152,535
Public safety	88,863	-	-	-	88,863
Public works	19,962	-	38,318	-	58,280
Community development	48,492	-	-	1,656	50,148
Capital outlay	37,990	-	53,920	-	91,910
Highways and streets	-	65,735	-	37,307	103,042
Debt service:					
Principal	10,000	-	-	-	10,000
Interest and fiscal charges	2,683	-	-	-	2,683
Total expenditures	360,525	65,735	92,238	38,963	557,461
Revenues over (under) expenditures	64,898	(7,988)	(92,238)	(14,464)	(49,792)
Other financing sources (uses)					
Transfers in	7,340	23,784	92,238	50,170	173,532
Transfers out	(86,319)	(24,750)	-	(39,510)	(150,579)
Total other financing sources (uses)	(78,979)	(966)	92,238	10,660	22,953
Net change in fund balances	(14,081)	(8,954)	-	(3,804)	(26,839)
Fund balances, beginning of year	483,355	33,921	-	11,936	529,212
Fund balances, end of year	\$ 469,274	\$ 24,967	\$ -	\$ 8,132	\$ 502,373

The accompanying notes are an integral part of these financial statements.

City of Reading
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2008

Net change in fund balances - total governmental funds	\$ (26,839)
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: Capital outlay	91,910
Deduct: depreciation expense	(18,239)

An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The net revenue (expense) attributable to those funds is reported with governmental activities.

Deduct: net operating loss from governmental activities in the internal service fund	(7,239)
Add: interest revenue from governmental internal service fund	3,886

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities	10,000
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct: increase in accrued interest payable on bonds	(200)
Add: decrease in the accrual for compensated absences	668

Change in net assets of governmental activities	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block; width: 100%;">\$ 53,947</div>
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The accompanying notes are an integral part of these financial statements.

City of Reading
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Over (Under) Budget
Revenues				
Property taxes	\$ 155,489	\$ 155,489	\$ 148,309	\$ (7,180)
Intergovernmental	125,850	125,850	128,925	3,075
Charges for services	15,500	15,500	24,199	8,699
Licenses and permits	5,600	5,600	5,717	117
Fines and forfeitures	150	150	43	(107)
Investment earnings	15,000	15,000	26,382	11,382
Lease revenue	2,400	2,400	2,400	-
Contributions	47,035	47,035	52,814	5,779
Other	30,600	30,600	36,634	6,034
Total revenues	397,624	397,624	425,423	27,799
Expenditures				
Current:				
General government	167,721	184,121	152,535	(31,586)
Public safety	101,391	111,791	88,863	(22,928)
Public works	18,500	20,100	19,962	(138)
Community development	48,630	52,630	48,492	(4,138)
Capital outlay	40,000	40,000	37,990	(2,010)
Debt service:				
Principal	10,000	10,000	10,000	-
Interest and fiscal charges	2,683	2,683	2,683	-
Total expenditures	388,925	421,325	360,525	(60,800)
Revenues over (under) expenditures	8,699	(23,701)	64,898	88,599
Other financing sources (uses)				
Transfers in	-	-	7,340	7,340
Transfers out	-	(96,499)	(86,319)	10,180
Total other financing sources (uses)	-	(96,499)	(78,979)	17,520
Net change in fund balances	8,699	(120,200)	(14,081)	106,119
Fund balances, beginning of year	483,355	483,355	483,355	-
Fund balances, end of year	\$ 492,054	\$ 363,155	\$ 469,274	\$ 106,119

The accompanying notes are an integral part of these financial statements.

City of Reading
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Major Streets Special Revenue Fund
For the Year Ended June 30, 2008

	Original Budget	Original/ Amended Budget	Actual	Over (Under) Budget
Revenue				
Intergovernmental	\$ 58,800	\$ 58,800	\$ 57,549	\$ (1,251)
Interest	500	500	198	(302)
Total revenue	59,300	59,300	57,747	(1,553)
Expenditures				
Public works	39,120	71,120	65,735	(5,385)
Revenue over (under) expenditures	20,180	(11,820)	(7,988)	(6,938)
Other financing sources (uses)				
Transfers in	-	23,784	23,784	-
Transfers out	-	(47,000)	(24,750)	22,250
Total other financing sources (uses)	-	(23,216)	(966)	22,250
Net change in fund balance	20,180	(35,036)	(8,954)	15,312
Fund balance, beginning of year	33,921	33,921	33,921	-
Fund balance, end of year	\$ 54,101	\$ (1,115)	\$ 24,967	\$ 26,082

The accompanying notes are an integral part of these financial statements.

City of Reading
Statement of Net Assets
Proprietary Funds
June 30, 2008

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Sewer	Water	Refuse	Total	
Assets					
Current assets:					
Cash and cash equivalents	\$ 450,131	\$ 433,319	\$6,238	\$ 889,688	\$ 198,500
Due from other governments	-	580,115	-	580,115	-
Accounts receivable	32,721	37,293	10,541	80,555	-
Due from other funds	98,700	-	-	98,700	-
Inventories	-	12,911	-	12,911	-
Total current assets	581,552	1,063,638	16,779	1,661,969	198,500
Noncurrent assets:					
Special assessments receivable	-	8,617	-	8,617	-
Capital assets not being depreciated	2,505,570	65,526	-	2,571,096	-
Capital assets being depreciated, net	260,531	2,821,069	-	3,081,600	236,843
Total noncurrent assets	2,766,101	2,895,212	-	5,661,313	236,843
Total assets	3,347,653	3,958,850	16,779	7,323,282	435,343
Liabilities					
Current liabilities:					
Accounts payable	26,898	601,760	7,480	636,138	1,773
Accrued payroll	846	1,641	21	2,508	345
Due to other funds	-	-	1,500	1,500	98,700
Bonds and notes payable, current portion	20,000	40,000	-	60,000	-
Total current liabilities	47,744	643,401	9,001	700,146	100,818
Noncurrent liabilities:					
Bonds and notes payable, net of current portion	2,362,000	1,595,000	-	3,957,000	-
Compensated absences, net of current portion	3,642	3,301	-	6,943	569
Total noncurrent liabilities	2,365,642	1,598,301	-	3,963,943	569
Total liabilities	2,413,386	2,241,702	9,001	4,664,089	101,387
Net Assets					
Invested in capital assets, net of related debt	384,101	1,251,595	-	1,635,696	236,843
Restricted for bond payment	-	112,375	-	112,375	-
Unrestricted	550,166	353,178	7,778	911,122	97,113
Total net assets	\$ 934,267	\$ 1,717,148	\$ 7,778	\$ 2,659,193	\$ 333,956

The accompanying notes are an integral part of these financial statements.

City of Reading
Reconciliation of Net Assets on the Statement of
Net Assets for Enterprise Funds to Net Assets of
Business-type Activities on the Statement of Net Assets
June 30, 2008

Net assets - enterprise funds	\$ 2,659,193
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Amounts reported for business-type activities in the statement of net assets are different because:

An internal service fund is used by management to charge the costs of certain equipment usage to individual enterprise funds. The portion of the net assets of the internal service fund attributable to these charges are included in business-type activities in the statement of net assets.

Add: net assets of business-type activities accounted for in the internal service fund	<u>4,187</u>
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Net assets of business-type activities	<u><u>\$ 2,663,380</u></u>
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The accompanying notes are an integral part of these financial statements.

City of Reading
Statement of Revenues, Expenses
and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2008

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Sewer	Water	Refuse	Total	
Operating revenues					
Charges for services	\$ 192,869	\$ 238,155	\$ 54,441	\$ 485,465	\$ -
Rent	-	-	-	-	65,593
Other	46,204	98,232	-	144,436	3,284
Total operating revenues	239,073	336,387	54,441	629,901	68,877
Operating expenses					
Operations and maintenance	140,435	151,603	57,311	349,349	46,832
Depreciation	16,924	55,672	-	72,596	33,041
Total operating expenses	157,359	207,275	57,311	421,945	79,873
Operating income (loss)	81,714	129,112	(2,870)	207,956	(10,996)
Nonoperating revenues (expenses)					
Investment income	13,998	(816)	-	13,182	3,886
Interest expense	(94,923)	(49,706)	-	(144,629)	-
Total nonoperating revenues (expenses)	(80,925)	(50,522)	-	(131,447)	3,886
Other financing sources (uses)					
Transfers out	(19,488)	(3,465)	-	(22,953)	-
Capital contributions - intergovernmental grants	-	500,000	-	500,000	-
Change in net assets	(18,699)	575,125	(2,870)	553,556	(7,110)
Net assets, beginning of year	952,966	1,142,023	10,648	2,105,637	341,066
Net assets, end of year	\$ 934,267	\$1,717,148	\$ 7,778	\$2,659,193	\$ 333,956

The accompanying notes are an integral part of these financial statements.

City of Reading
Reconciliation of the Statement of Revenues, Expenses
and Changes in Fund Net Assets of Proprietary Funds
to the Statement of Activities
For the Year Ended June 30, 2008

Net change in net assets - total enterprise funds	\$ 553,556
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Amounts reported for *business-type activities* in the statement of activities are different because:

An internal service fund is used by management to charge the costs of certain equipment usage to individual enterprise funds. The net revenue (expense) attributable to those funds is reported with business-type activities.

Deduct: net operating loss from business-type activities in the internal service fund	<u>(3,757)</u>
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Change in net assets of business-type activities	<u><u>\$ 549,799</u></u>
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The accompanying notes are an integral part of these financial statements.

City of Reading
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2008

	Business-type Activities - Enterprise Funds				Governmental Activities -
					Internal Service Fund
	Sewer	Water	Refuse	Total	
Cash flows from operating activities					
Cash received from customers and others	\$ 608,403	\$(222,823)	\$54,628	\$ 440,208	\$ 68,877
Cash payments to suppliers for goods and services	(550,805)	488,182	(49,272)	(111,895)	62,515
Cash payments to employees	(46,806)	(44,731)	(706)	(92,243)	(9,874)
Net cash provided by operating activities	10,792	220,628	4,650	236,070	121,518
Cash flows from investing activities					
Investment income	13,998	(816)	-	13,182	3,886
Cash flows from capital and related financing activities					
Purchase of capital assets	(509,843)	(972,280)	-	(1,482,123)	(98,700)
Capital contributions	-	500,000	-	500,000	-
Bond proceeds	625,311	473,000	-	1,098,311	-
Bond principal payments	(24,000)	(37,000)	-	(61,000)	-
Bond interest payments	(94,923)	(49,706)	-	(144,629)	-
Net cash used by capital and related financing activities	(3,455)	(85,986)	-	(89,441)	(98,700)
Cash flows from non-capital financing activities					
Transfers to other funds	(19,488)	(3,465)	-	(22,953)	-
Net increase in cash and cash equivalents	1,847	130,361	4,650	136,858	26,704
Cash and cash equivalents, beginning of year	448,284	302,958	1,588	752,830	171,796
Cash and cash equivalents, end of year	\$ 450,131	\$ 433,319	\$ 6,238	\$ 889,688	\$ 198,500

Continued

The accompanying notes are an integral part of these financial statements.

City of Reading
Statement of Cash Flows (Concluded)
Proprietary Funds
For the Year Ended June 30, 2008

	<u>Business-type Activities - Enterprise Funds</u>				<u>Governmental Activities - Internal Service Fund</u>
	<u>Sewer</u>	<u>Water</u>	<u>Refuse</u>	<u>Total</u>	
Reconciliation of operating income (loss) to net cash provided by operating activities					
Operating income (loss)	\$ 81,714	\$ 129,112	\$ (2,870)	\$ 207,956	\$ (10,996)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation		55,672	-	55,672	33,041
Changes in assets and liabilities:					
Accounts receivable - customers	3,341	(166)	187	3,362	-
Due from other governments	464,689	(580,115)	-	(115,426)	-
Due from other funds	(98,700)	-	-	(98,700)	-
Special assessments receivable - noncurrent	-	21,071	-	21,071	-
Inventories	-	5,769	-	5,769	-
Accounts payable	(441,031)	588,371	7,480	154,820	482
Due to other funds	-	-	-	-	98,700
Accrued and other liabilities	163	884	(1)	1,046	185
Compensated absences payable	616	30	(146)	500	106
Net cash provided by operating activities	<u>\$ 10,792</u>	<u>\$ 220,628</u>	<u>\$ 4,650</u>	<u>\$ 236,070</u>	<u>\$ 121,518</u>

The accompanying notes are an integral part of these financial statements.

City of Reading
Statement of Fiduciary Net Assets
All Fiduciary Funds
June 30, 2008

	Agency Fund
	<hr/>
Assets	
Cash and cash equivalents	\$ 5,255
	<hr/>
Liabilities	
Do to other governmental units	\$ 5,255
	<hr/>

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

CITY OF READING, MICHIGAN

Notes to the Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Reading, Michigan is a municipal corporation governed by a five-member council and by an appointed City Manager. The accompanying financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable.

Discretely presented component unit:

The City's Tax Increment Financing Authority (TIFA) (the "Authority") is organized and incorporated as authorized by the Tax Increment Authority Act, P.A. 450 of 1980. The Authority is a component unit of the City of Reading, Michigan governed by a separate board appointed by the City Council, created to promote economic growth in the City of Reading, Michigan.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

CITY OF READING, MICHIGAN

Notes to the Financial Statements

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for expenditure-driven grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Intergovernmental revenues are accrued when earned. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The *general fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *major streets fund* accounts for the use of motor fuel taxes which are earmarked by State statute for major street and highway purposes.

The *capital projects fund* accounts for City-wide improvement projects.

CITY OF READING, MICHIGAN

Notes to the Financial Statements

The City reports the following nonmajor governmental funds:

The *local streets fund* accounts for the use of motor fuel taxes which are earmarked by State statute for local street and highway purposes.

The *rental rehabilitation fund* accounts for renovation activities for rental properties.

The *permanent fund* accounts for financial resources that are restricted to expenditures for the maintenance of grave sites.

The City reports the following major proprietary funds:

The *sewer fund* accounts for the activities of the City's sewage collection system.

The *water fund* accounts for the activities of the City's water distribution and treatment system.

The *refuse fund* accounts for the operation and maintenance of the City's trash collection system.

Additionally, the City reports the following fund types:

The *internal service fund* accounts for fleet and equipment management to other departments on a cost reimbursement basis.

The *agency fund* for assets held for other governments in an agency capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

CITY OF READING, MICHIGAN

Notes to the Financial Statements

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and of the government's internal service fund are charges to customers for sales and services. The enterprise funds also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, liabilities and equity

1. Deposits and investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the City to deposit in the accounts of federally insured banks, credit unions and savings and loan associations and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

2. Interfund receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

3. Inventories

All inventories are valued at cost using the first-in/first-out (FIFO) method.

CITY OF READING, MICHIGAN

Notes to the Financial Statements

4. *Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items constructed or acquired after 1980), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20-50
Furniture and equipment	5-15
System infrastructure	20-50
Vehicles	4-10

5. *Compensated absences*

Eligible employees may earn ninety-six hours of sick time annually. However, only eighty hours can be accumulated and carried over to the next year. Employees are paid 1/3 of earned sick leave exceeding eighty hours at the end of the fiscal year. Upon death or retirement, accumulated sick days are paid at the employee's prevailing rate of pay. Due to the uncertainty of maturity of this liability, the City has accrued the estimated amount of accumulated sick pay in noncurrent liabilities in the statement of net assets.

CITY OF READING, MICHIGAN

Notes to the Financial Statements

6. *Long-term obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are externally imposed by creditors, grantors, contributors or laws or regulations of other governments. Designations of fund balance represent tentative management plans that are subject to change. In the government-wide financial statements, net assets reported as “restricted” are subject to externally imposed restrictions by laws and regulations or grantors.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The City Manager must present the proposed budget to the City Council for review. The Council holds public hearings and a final budget must be prepared and adopted no later than the June 1.

CITY OF READING, MICHIGAN

Notes to the Financial Statements

The appropriated budget is prepared by fund and department. The City Manager may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the functional level. Certain supplemental budgetary appropriations were made during the year which were not considered material.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Nets Assets as follows:

Statement of Net Assets:

Cash and cash equivalents:

Governmental activities	\$ 648,657
Business-type activities	889,688
Component unit	77,421

Statement of Fiduciary Net Assets:

Agency Fund:

Cash and cash equivalents	<u>5,255</u>
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Total **\$ 1,621,021**

These balances are composed of the following:

Bank deposits:

Checking/savings accounts	\$ 1,387,588
Certificate of deposits	<u>233,433</u>

\$ 1,621,021

CITY OF READING, MICHIGAN

Notes to the Financial Statements

Deposit and investment risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools. The City's investment policy does not have specific limits in excess of state law on investment credit risk.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year end, \$1,209,036 of the City's bank balance of \$1,517,394 was exposed to custodial credit risk because it was uninsured and uncollateralized.

B. Receivables

Receivables as of year end are comprised of the following:

	Governmental Business-type	
	<u>Activities</u>	<u>Activities</u>
Due from other governments	\$ 62,484	\$ -
Special assessments receivable	-	8,617
Accounts receivable	-	80,555
Due from component unit	-	580,115
Total	<u>\$ 62,484</u>	<u>\$ 669,287</u>

C. Joint Venture

The City participates with Reading Township in the Reading Community Fire Department (the "Department", a joint venture pursuant to an agreement entered into between the two parties. A joint venture is based on the related contractual agreement by the two parties. The Board of Directors is comprised of two members each of the respective municipalities and the Department's Fire Chief.

CITY OF READING, MICHIGAN

Notes to the Financial Statements

The City's investment in the joint venture is \$80,227 as of April 30, 2006, the date of the Department's most recent audit. Copies of the Department's financial statements may be obtained at the Reading Community Fire Department in Reading, Michigan.

D. Capital assets

Capital assets activity for the year ended June 30, 2008, was as follows:

Primary Government

	Beginning Balance	Additions	Disposals	Ending Balance
<u>Governmental Activities</u>				
Capital assets, not being depreciated				
Land	\$ 55,674	\$ -	\$ -	\$ 55,674
Construction in process	4,625	-	4,625	-
Total capital assets not being depreciated	60,299	-	4,625	55,674
Capital assets, being depreciated				
Buildings and improvements	177,454	-	-	177,454
Land improvements	92,702	58,545	-	151,247
Furniture and equipment	453,156	37,990	-	491,146
Vehicles	100,792	98,700	-	199,492
Total capital assets being depreciated	824,104	195,235	-	1,019,339
Less accumulated depreciation for:				
Buildings and improvements	(104,124)	(4,396)	-	(108,520)
Land improvements	(6,476)	(3,848)	-	(10,324)
Furniture and equipment	(218,149)	(35,507)	-	(253,656)
Vehicles	(60,213)	(7,529)	-	(67,742)
Total accumulated depreciation	(388,962)	(51,280)	-	(440,242)
Total capital assets being depreciated, net	435,142	143,955	-	579,097
Capital assets, net	\$ 495,441	\$ 143,955	\$ 4,625	\$ 634,771

CITY OF READING, MICHIGAN

Notes to the Financial Statements

	Balance Balance	Additions	Disposals	Balance Balance
<u>Business-type Activities</u>				
Capital assets, not being depreciated				
Land	\$ 20,550	\$ -	\$ -	\$ 20,550
Construction in process	2,023,779	1,499,007	-	3,522,786
Total capital assets not being depreciated	2,044,329	1,499,007	-	3,543,336
Capital assets, being depreciated				
Water and sewer distribution system	3,560,327	-	-	3,560,327
Equipment	78,866	-	-	78,866
Total capital assets being depreciated	3,639,193	-	-	3,639,193
Less accumulated depreciation for:				
Water and sewer distribution system	(1,385,450)	(71,207)	-	(1,456,657)
Equipment	(71,827)	(1,389)	-	(73,216)
Total accumulated depreciation	(1,457,277)	(72,596)	-	(1,529,873)
Total capital assets being depreciated, net	2,181,916	(72,596)	-	2,109,320
Capital assets, net	\$ 4,226,245	\$ 1,426,411	\$ -	\$ 5,652,656

Component Unit

	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets, being depreciated				
Equipment	\$ 17,860	\$ -	\$ -	\$ 17,860
Less accumulated depreciation for:				
Equipment	(7,436)	(1,556)	-	(8,992)
Capital assets, net	\$ 10,424	\$ (1,556)	\$ -	\$ 8,868

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 6,468
Public safety	5,474
Public works	6,297
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	33,041

Total depreciation expense – governmental activities **\$ 51,280**

CITY OF READING, MICHIGAN

Notes to the Financial Statements

Business-type activities:

Water	\$ 55,672
Sewer	<u>16,924</u>

Total depreciation expense – business-type activities **\$ 72,596**

Tax Increment Finance Authority Component unit:

Community Development	<u>\$ 1,556</u>
-----------------------	------------------------

E. Accounts payable and accrued liabilities

Payables are comprised of the following:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Component Unit</u>
Accounts payable	\$ 11,459	\$ 636,138	\$ 9,013
Other liabilities	<u>2,874</u>	<u>2,508</u>	<u>-</u>
Total	<u>\$ 14,333</u>	<u>\$ 638,646</u>	<u>\$ 9,013</u>

F. Interfund receivables, payables and transfers

At June 30, 2008, the interfund receivables and payables were as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General fund	\$ 1,500	\$ -
Refuse enterprise fund	-	1,500
Sewer fund	98,700	-
Internal service fund	<u>-</u>	<u>98,700</u>
	<u>\$ 100,200</u>	<u>\$ 100,200</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. In addition, certain amounts are reported as internal balances in the statement of net assets relative to the elimination of the Internal Service Fund.

CITY OF READING, MICHIGAN

Notes to the Financial Statements

For the year ended June 30, 2008, interfund transfers consisted of the following:

	Transfers In	Transfers Out
Governmental funds:		
General fund	\$ 7,340	\$ 86,319
Major streets fund	23,784	24,750
Capital projects fund	92,238	-
Nonmajor governmental funds	50,170	39,510
Enterprise funds:		
Sewer fund	-	19,488
Water fund	-	3,465
	\$ 173,532	\$ 173,532

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

G. Long-term debt

Long-term debt at June 30, 2008, is comprised of the following:

Governmental activities

The City entered into a \$100,000 note payable secured by equipment, due in semi-annual installments of \$5,000, which includes interest at 3.70% through August 2, 2014.

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities		
2005 fire truck	3.70%	<u>\$ 65,000</u>

CITY OF READING, MICHIGAN

Notes to the Financial Statements

Annual debt service requirements to maturity for installment obligations are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2009	\$ 10,000	\$ 2,313	\$ 12,313
2010	10,000	1,943	11,943
2011	10,000	1,573	11,573
2012	10,000	1,203	11,203
2013	10,000	833	10,833
2013-2017	15,000	555	15,555
	<u>\$ 65,000</u>	<u>\$ 8,420</u>	<u>\$ 73,420</u>

The City also issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. The original amount of revenue bonds issued in prior years for the two bonds listed below was \$3,373,000. During the year the City issued the final portion of the 2006 sewer project revenue bonds totaling \$149,311:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Business-type activities		
2006 A sewer project	4.375%	\$ 1,911,000
1995 water project	4.50%	1,003,000
1981 water system	5.00%	<u>144,000</u>
		<u>\$ 3,058,000</u>

CITY OF READING, MICHIGAN

Notes to the Financial Statements

Revenue bond debt service requirements to maturity are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2009	\$ 55,000	\$ 132,500	\$ 187,500
2010	51,000	130,195	181,195
2011	54,000	127,828	181,828
2012	55,000	125,368	180,368
2013	57,000	122,844	179,844
2014-2018	323,000	572,983	895,983
2019-2023	335,000	496,796	831,796
2024-2028	399,000	417,788	816,788
2029-2033	496,000	320,278	816,278
2034-2038	484,000	205,094	689,094
2039-2043	381,000	120,041	501,041
2044-2047	368,000	32,130	400,130
	<u>\$ 3,058,000</u>	<u>\$ 2,803,844</u>	<u>\$ 5,861,844</u>

The City was awarded two rural development revenue bonds for sewer and water projects. The City had drawn down a total of \$476,000 for the sewer project and made a payment of \$5,000 during the year ended June 30, 2008. The City had drawn down a total of \$473,000 for the water project and has made no payments as of June 30, 2008. The repayment of these loans is dependent on the drawdown's. Accordingly, these amounts have been excluded from the previous schedule of annual debt service requirements.

Business-type activities

2007 water project	4.375%	\$ 473,000
2006 sewer project	4.375%	<u>471,000</u>
		<u><u>\$ 944,000</u></u>

Special assessment bonds

The City entered into \$270,000 of special assessment bonds with annual payments of \$5,000 to \$10,000, which includes interest of 5% through 2009. No special assessment bonds were issued during the current year. Special assessment bonds outstanding at year end are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Business-type activities		
1981 water improvement bonds	5.00%	<u>\$ 15,000</u>

CITY OF READING, MICHIGAN

Notes to the Financial Statements

Debt service requirements to maturity for special assessment bonds are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2009	\$ 5,000	\$ 500	\$ 5,500
2010	10,000	-	10,000
	<u>\$ 15,000</u>	<u>\$ 500</u>	<u>\$ 15,500</u>

Bank notes

The TIFA entered into a \$600,000 note with monthly payments of \$3,960, which includes interest of 5% through February 25, 2010, at which time a balloon payment is the amount of \$506,693 is due in full. No notes were issued during the current year. Notes outstanding at year end are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Tax Increment Finance Authority		
Bank note	5.00%	<u>\$ 540,397</u>

CITY OF READING, MICHIGAN

Notes to the Financial Statements

Debt service requirements to maturity for the bank note are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2009	\$ 20,976	\$ 26,544	\$ 47,520
2010	519,421	14,992	534,413
	<u>\$ 540,397</u>	<u>\$ 41,536</u>	<u>\$ 581,933</u>

Changes in Long-term Liabilities

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Installment Purchase					
Contracts	\$ 75,000	\$ -	\$ (10,000)	\$ 65,000	\$ 10,000
Compensated Absences	6,121	-	(611)	5,510	-
Government activity long-term liabilities	<u>\$ 81,121</u>	<u>\$ -</u>	<u>\$ (10,611)</u>	<u>\$ 70,510</u>	<u>\$ 10,000</u>
Business-type activities:					
Revenue Bonds	\$ 2,959,689	\$ 1,098,311	\$ (56,000)	\$ 4,002,000	\$ 55,000
Special Assessment Bonds	20,000	-	(5,000)	15,000	5,000
Compensated Absences	6,443	500	-	6,943	-
Business-type activity long-term liabilities	<u>\$ 2,986,132</u>	<u>\$ 1,098,811</u>	<u>\$ (61,000)</u>	<u>\$ 4,023,943</u>	<u>\$ 60,000</u>
Component unit					
Bank note	<u>\$ 559,903</u>	<u>\$ -</u>	<u>\$ (19,506)</u>	<u>\$ 540,397</u>	<u>\$ 20,976</u>

For the governmental activities, compensated absences are generally liquidated by the general fund.

CITY OF READING, MICHIGAN

Notes to the Financial Statements

H. Segment information--enterprise funds

The government issued revenue bonds to finance certain improvements to its water and sewer systems. Because the Water Fund and the Sewer Fund are each reported as major funds in the fund financial statements and account entirely for a specific segment, disclosures are not required herein.

IV. OTHER INFORMATION

A. Risk management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2008, the City carried insurance through various commercial carriers, to cover all risks of losses. The City has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

B. Property taxes

The City's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through August 31; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Hillsdale County.

Assessed values as established annually by the City, and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. Real and personal property in the City for the 2007 levy were assessed and equalized at \$13,932,610 (not including properties subject to Industrial Facilities Tax exemption). The City's general operating tax rate for fiscal year 2007-08 was 12.53020 mills.

CITY OF READING, MICHIGAN

Notes to the Financial Statements

C. Defined benefit pension plan

The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the Retirement Board of MERS. The Plan provides retirement and disability benefits, annual cost of living adjustments, and death benefits to Plan members and beneficiaries. The MERS Retirement Board establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917, or by calling (800) 767-6377.

The City is required to contribute at an actuarially determined rate; the current rate is 5.79% of annual covered payroll. City employees are not required to contribute to the plan. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the City.

For the year ended June 30, 2008, the City's annual pension cost of \$9,191 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2006 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8%; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 8.4% per year, depending on age, attributable to seniority/merit.

The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2007, the date of the latest actuarial valuation, was 25 years.

Three-Year Trend Information

Years Ended June 30,	Annual Pension Cost (APC)	Percentage Contributed	Net Pension Obligation
2006	\$ 8,197	100%	\$ -
2007	8,476	100	-
2008	9,151	100	-

CITY OF READING, MICHIGAN

Notes to the Financial Statements

Schedule of Funding Progress

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) Entry Age	(b-a) Unfunded AAL (UAAL)	Funded Ratio Total	(c) Covered Payroll	((b-a)/c) UAAL as a Percentage of Covered Payroll
12/31/05	\$187,606	\$221,346	\$ 33,740	85%	\$157,975	21%
12/31/06	204,873	230,408	25,535	89%	150,206	17%
12/31/07	224,488	259,913	35,425	86%	161,023	22%

* * * * *

SUPPLEMENTARY INFORMATION

City of Reading
Detailed Schedule of Expenditures - Budget and Actual
General Fund
For the Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Over (Under) Budget
Expenditures				
General government:				
Council	\$ 15,913	\$ 15,913	\$ 12,092	\$ (3,821)
Manager	13,545	13,545	12,692	(853)
Elections	2,700	2,700	954	(1,746)
Audit	7,500	7,600	7,600	-
Legal	8,000	8,000	4,065	(3,935)
Clerk/Treasurer	15,222	15,722	13,243	(2,479)
Assessor/Treasurer	9,607	10,107	8,583	(1,524)
Buildings and grounds	39,610	51,610	38,473	(13,137)
Cemeteries	36,124	39,424	36,567	(2,857)
Insurance	19,500	19,500	18,266	(1,234)
Total general government	<u>167,721</u>	<u>184,121</u>	<u>152,535</u>	<u>(31,586)</u>
Public safety:				
Police	72,203	57,603	42,863	(14,740)
Fire contribution	29,188	54,188	46,000	(8,188)
Total public safety	<u>101,391</u>	<u>111,791</u>	<u>88,863</u>	<u>(22,928)</u>
Public works:				
Street lighting	<u>18,500</u>	<u>20,100</u>	<u>19,962</u>	<u>(138)</u>
Community development:				
Planning	4,695	4,695	2,513	(2,182)
TIFA administration	43,935	47,935	45,979	(1,956)
Total community development	<u>48,630</u>	<u>52,630</u>	<u>48,492</u>	<u>(4,138)</u>
Capital outlay	<u>40,000</u>	<u>40,000</u>	<u>37,990</u>	<u>(2,010)</u>
Debt service:				
Principal	10,000	10,000	10,000	-
Interest	2,683	2,683	2,683	-
Total public works	<u>12,683</u>	<u>12,683</u>	<u>12,683</u>	<u>-</u>
Total expenditures	<u><u>\$ 348,925</u></u>	<u><u>\$ 421,325</u></u>	<u><u>\$ 360,525</u></u>	<u><u>\$ (60,800)</u></u>

City of Reading
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008

	<u>Special Revenue Funds</u>		Permanent Fund	Total Nonmajor Governmental Funds
	Local Streets	Rental Rehabilitation		
<u>ASSETS</u>				
Assets				
Cash and cash equivalents	\$ 1,618	\$ 3,344	\$ -	\$ 4,962
Due from other governments	3,403	-	-	3,403
<u>TOTAL ASSETS</u>	\$ 5,021	\$ 3,344	\$ -	\$ 8,365
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities				
Accounts payable	\$ 28	\$ -	\$ -	\$ 28
Accrued payroll	205	-	-	205
Total liabilities	233	-	-	233
Fund balances:				
Unreserved:				
Undesignated	4,788	3,344	-	8,132
Total fund balances	4,788	3,344	-	8,132
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	\$ 5,021	\$ 3,344	\$ -	\$ 8,365

City of Reading
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2008

	Special Revenue Funds		Permanent	Total
	Local	Rental	Fund	Nonmajor
	Streets	Rehabilitation		Governmental
				Funds
Revenues				
Intergovernmental	\$ 19,499	\$ 5,000	\$ -	\$ 24,499
Total revenues	19,499	5,000	-	24,499
Expenditures				
Current:				
Highways and streets	37,307	-	-	37,307
Community development	-	1,656	-	1,656
Total expenditures	37,307	1,656	-	38,963
Revenues over (under) expenditures	(17,808)	3,344	-	(14,464)
Other financing sources (uses)				
Transfers in	50,170	-	-	50,170
Transfers out	(32,170)	-	(7,340)	(39,510)
Total other financing sources (uses)	18,000	-	(7,340)	10,660
Net change in fund balances	192	3,344	(7,340)	(3,804)
Fund balances, beginning of year	4,596	-	7,340	11,936
Fund balances, end of year	\$ 4,788	\$ 3,344	\$ -	\$ 8,132

City of Reading
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Local Streets Special Revenue Fund
For the Year Ended June 30, 2008

	Original Budget	Original/ Amended Budget	Actual	Over (Under) Budget
Revenue				
Intergovernmental	\$ 19,500	\$ 19,500	\$ 19,499	\$ (1)
Expenditures				
Public works	38,003	41,503	37,307	(4,196)
Revenue under expenditures	(18,503)	(22,003)	(17,808)	4,195
Other financing sources				
Transfers in	-	56,000	50,170	(5,830)
Transfers out	-	(42,000)	(32,170)	9,830
Total other financing sources (uses)	-	14,000	18,000	4,000
Net change in fund balance	(18,503)	(8,003)	192	8,195
Fund balance, beginning of year	4,596	4,596	4,596	-
Fund balance, end of year	\$ (13,907)	\$ (3,407)	\$ 4,788	\$ 8,195

City of Reading
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Rental Rehabilitation Special Revenue Fund
For the Year Ended June 30, 2008

	Original Budget	Original/ Amended Budget	Actual	Over (Under) Budget
Revenue				
Intergovernmental	\$ -	\$ 5,000	\$ 5,000	\$ -
Expenditures				
Public works	-	5,660	1,656	(4,004)
Net change in fund balance	-	(660)	3,344	4,004
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	\$ -	\$ (660)	\$ 3,344	\$ 4,004

City of Reading
Statement of Net Assets / Governmental Fund Balance Sheet
Tax Increment Finance Authority Component Unit
June 30, 2008

	<u>Governmental Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
Assets			
Cash and cash equivalents	\$ 77,421	\$ -	\$ 77,421
Assets held for resale	-	920,993	920,993
Capital assets being depreciated, net	-	8,868	8,868
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u><u>\$ 77,421</u></u>	<u><u>929,861</u></u>	<u><u>1,007,282</u></u>
Liabilities			
Accounts payable	9,013	-	9,013
Long-term debt:			
Due within one year	-	20,976	20,976
Due in more than one year	-	519,421	519,421
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	9,013	<u><u>540,397</u></u>	<u><u>549,410</u></u>
Fund balance			
Unreserved, undesignated	<u>68,408</u>	(68,408)	-
	<u> </u>		
Total liabilities and fund balance	<u><u>\$ 77,421</u></u>		
Net assets			
Invested in capital assets		-	389,464
Unrestricted		<u>389,464</u>	<u>68,408</u>
		<u> </u>	<u> </u>
Total net assets		<u><u>\$ 389,464</u></u>	<u><u>\$ 457,872</u></u>

City of Reading
Statement of Activities and Governmental Fund
Revenues, Expenditures, and Changes in Fund Balance
Tax Increment Finance Authority Component Unit
For the Year Ended June 30, 2008

	Governmental Fund	Adjustments	Statement of Activities
Expenses			
Community development	\$ 85,546	\$ 27,556	\$ 113,102
Capital outlay	37,524	(37,524)	-
Debt service:			
Principal	19,506	(19,506)	-
Interest and fiscal charges	28,014	-	28,014
	<u>170,590</u>	<u>(29,474)</u>	<u>141,116</u>
Program revenues			
Charges for services	22,804	-	22,804
	<u>(147,786)</u>	<u>29,474</u>	<u>(118,312)</u>
General revenues			
Property taxes	71,367	-	71,367
Unrestricted investment earnings	4,254	-	4,254
	<u>75,621</u>	<u>-</u>	<u>75,621</u>
Change in net assets	(72,165)	29,474	(42,691)
Net assets, beginning of year	140,573	359,990	500,563
Net assets, end of year	<u>\$ 68,408</u>	<u>\$ 389,464</u>	<u>\$ 457,872</u>

**CITY OF READING,
MICHIGAN**

SINGLE AUDIT

For the Year Ended June 30, 2008



REHMANN ROBSON

Certified Public Accountants

**CITY OF READING, MICHIGAN
SINGLE AUDIT**

TABLE OF CONTENTS

YEAR ENDED JUNE 30, 2008

	<u>PAGE</u>
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1-2
Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133	3-4
Schedule of Expenditures of Federal Awards	5
Schedule of Findings and Questioned Costs	6-11

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REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

December 26, 2008

Honorable Mayor and Members
of the City Council
City of Reading, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the **CITY OF READING, MICHIGAN** (the "City") as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents, and have issued our report thereon dated December 26, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control over financial reporting. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2008-1 through 2008-3 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2008-1, 2008-2 and 2008-3 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Reading in a separate letter dated December 26, 2008.

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the audit committee, the governing board, management, others within the organization, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.





**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

December 26, 2008

Honorable Mayor and Members
of the City Commission
City of Reading, Michigan

Compliance

We have audited the compliance of the **CITY OF READING, MICHIGAN** (the "City") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs are the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on major federal programs occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2008-4 and 2008-5 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Entity's internal control. We did not consider the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2008-4 and 2008-5 to be material weaknesses.

The City's responses to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the *City of Reading, Michigan* as of and for the year ended June 30, 2008, and have issued our report thereon dated December 26, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the audit committee, management, others within the organization, the City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



CITY OF READING, MICHIGAN
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

Federal/Pass-through Grantor Program Title	CFDA Number	Pass-through Grantor Number	Award Amount	Federal Expenditures
U.S. Department of Agriculture				
Direct Programs:				
Water and Waste Disposal Systems for Rural Communities				
Sanitary Sewer System Series A	10.760	-n/a-	\$ 1,930,000	\$ 149,311
Sanitary Sewer System Series E	10.760	-n/a-	560,000	476,370
Water Supply System Series C	10.760	-n/a-	1,156,000	473,000
Total U.S. Department of Agriculture				1,098,681
U.S. Department of Housing and Urban Development				
Passes through the Michigan Strategic Fund:				
Community Development Block Grant				
Water Treatment Facility	14.228	MSC-206034-ICE	500,000	500,000
Total Expenditures of Federal Awards				<u>\$ 1,598,681</u>

Notes:

The Schedule above presents the activity of all federal award programs of the City, and the information is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The Schedule above is presented using the modified accrual basis of accounting which is described Note 1 of the City's basic financial statements.

CITY OF READING, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? X yes no

Significant deficiency(ies) identified
not considered to be material weaknesses? yes X none reported

Noncompliance material to financial statements
noted? yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified
not considered to be material weaknesses? X yes none reported

Type of auditors' report issued on compliance
for major programs: Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section 510(a)? yes X no

CITY OF READING, MICHIGAN

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.760	Water and Waste Disposal Systems for Rural Communities
14.228	Community Development Block Grant

Dollar threshold used to distinguish
between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? yes X no

SECTION II – FINANCIAL STATEMENT FINDINGS

2008-1 Preparation of Financial Statements in Accordance with GAAP

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)

Condition: As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the government's internal controls.

Cause: This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

CITY OF READING, MICHIGAN

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

2008-1 Preparation of Financial Statements in Accordance with GAAP (Concluded)

Effect: As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

Recommendation/

Comment: The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

**View of
Responsible
Officials:**

The City has evaluated the benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the district to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

2008-2 Year-end Audit Adjustments

Criteria: The government is responsible for the reconciliation of all general ledger accounts to their proper underlying balances for the purpose of creating a reasonably adjusted final trial balance, from which the basis financial statements are derived.

Condition: A total of 13 adjusting journal entries were needed in order to create a reasonably adjusted final trial balance, 5 of which we considered to be significant entries. These included entries needed for the following:

- To properly record current year capital asset additions related to the sewer and water construction project.
- To move capital assets incorrectly recorded in the sewer fund to the internal service fund.
- To properly record loan proceeds related to the sewer and water construction project.
- To properly record principal payments related to the sewer and water construction projects.
- To adjust beginning fund balance accounts to agree with the prior year audit report.

CITY OF READING, MICHIGAN

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

2008-2 Year-end Audit Adjustments (Concluded)

Cause: Internal controls did not detect all adjustments necessary to properly record year-end balances.

Effect: As a result of this condition, the government is not able to produce accurate financial information.

**View of
Responsible
Officials:**

Management acknowledges its responsibility for making these adjustments, and intends to develop a plan to identify and record all necessary year-end adjustments in the future.

Finding 2008-3 Audit of Reading Community Fire Department

Criteria: The City participates with Reading Township in a joint venture to provide Fire Services. For determination of the City's share of the net assets of this joint venture, an annual audit should be determined.

Condition: The Community Fire Department has not been audited since the year ending April 30, 2006.

Cause: The Community Fire Department is in the process of procuring audit services.

Effect: As a result of this condition, the City is not able to provide a current basis for its investment in the joint venture.

Recommendation/

Comment: We recommend that the Community Fire Department have an annual audit.

**View of
Responsible
Officials:**

The Community Fire Department plans on having an audit in 2009.

CITY OF READING, MICHIGAN

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2008-4 Monitoring of Equipment Purchased With Federal Funds

Criteria: The City is responsible for the keeping accurate records over equipment purchased with federal funds so the City can properly dispose in accordance with federal compliance requirement.

Condition: The City does not track capital assets purchased with federal dollars.

Cause: In the past the City has relied on its external auditors to keep detailed documentation on its capital assets.

Effect: As a result of this condition, the City is not able to accurately identify capital assets purchased with federal funds.

Recommendation/

Comment: We recommend that the City keep detailed records of capital assets and indicate what items are purchased using federal funds.

View of

Responsible

Officials: Going forward the City will keep a detail record of all capital assets and indicate what items are purchased using federal funds.

Finding 2008-5 Monitoring of Davis-Bacon

Criteria: For any construction contract of \$2,000 or more, the City must monitor the payroll payments to the employees of the contractor and make sure that these payments are equal to or more that the prevailing wage rates of the area.

Condition: The City does not monitor payroll payments to the contractor's employees on a regular basis to ensure compliance with the Davis-Bacon Act.

Cause: In the past the City has relied on the contractor's detailed documentation on the Davis-Bacon requirements.

CITY OF READING, MICHIGAN

Schedule of Findings and Questioned Costs (Concluded)

For the Year Ended June 30, 2008

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Concluded)

Finding 2008-5 Monitoring of Davis-Bacon (Concluded)

Effect: Lack of internal control over Davis-Bacon compliance increases the risk that prevailing wage rates are not met during the construction process.

Recommendation/

Comment: We recommend that the City receive from its contracted Engineering firm the monitoring reports of the contractors as assurance that this compliance procedure is being performed timely and accurately.

View of Responsible Officials:

The City has relied on its Engineering firm to provide the monitoring of Davis-Bacon during the project. Going forward, the City will request from the Engineering firm the monitoring reports as assurance that this compliance procedure is being performed timely and accurately.

SECTION IV – PRIOR YEAR FINDINGS

Finding # 2007-3 has been repeated as finding # 2008-2.

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



December 26, 2008

To the City Council of the
City of Reading

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Reading* (the "City") for the year ended June 30, 2008, and have issued our report thereon dated December 26, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter dated July 22, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the City's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on July 21, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the *City* are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 26, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the *City of Reading* and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

City of Reading

Comments and Recommendations

For the Year Ended June 30, 2008

In planning and performing our audit of the financial statements of the City of Reading as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be significant deficiencies are described in the Schedule of Findings and Questioned Costs in the City's Single Audit report.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Other Matters

Internal Controls – Segregation of Duties

Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the City's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the government's unique circumstances.

As is the case with many organizations of similar size, the City lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

City of Reading

Comments and Recommendations (Concluded)

For the Year Ended June 30, 2008

Events of recent years have given rise to a heightened awareness of the risks of fraud and abuse, especially in the governmental environment, where public accountability is at its highest. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitations on the effectiveness of a government's internal controls carries with it a greater risk of fraud and abuse.

As stated previously, the establishing and maintaining of internal controls is the responsibility of management. As the City's independent external auditors, we are specifically banned by professional standards from performing any management functions. In other words, the annual audit is not a part of the City's internal control structure, and cannot not be relied upon as part of *management's* systems to deter or detect fraud and abuse.

While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible. During our audit, we noted processes that hinder the City's segregation of duties as follows:

- Bank accounts are reconciled by individuals with cash receipts and disbursement responsibilities.
- Responsibilities for initiating, evaluating, and approving transactions for investments are not separate from detail accounting and general ledger functions.
- Changes in employment (additions and terminations) and salary and wages rates are not reviewed by someone independent of payroll input.

Documentation

During our audit procedures it was noted that while the City does have proper segregation of duties in certain areas, there was no evidence documenting who prepared certain documents and who reviewed them. To enhance the internal controls and to ensure accountability, there should be evidence of a preparer and reviewer of any completed key source documents or reconciliation forms.

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